

LIFE EVENT RESOURCES:

BUYING A CAR



Ready to buy a car? That's exciting! We know there's a lot to think about, from researching your options to sorting out finances and paperwork. That's why we've broken things down to make the process clear and easy, so you never feel overwhelmed. Our goal is to help you feel prepared and confident, with friendly support from True North every step—just as we've done since 1948.

This resource worksheet provides an overview of the following topics:

- ☐ What to Know Before Buying a Car
- ☐ Understanding Your Auto Loan Options
- ☐ Understanding Your Auto Insurance Coverage Options
- ☐ Common Auto Loan Terms



What to Know Before Buying a Car



Get Your Finances Ready

 **Set Your Budget:** Think about the full cost of owning a car—this means not just the sticker price, but also taxes, registration, insurance (get some quotes!), gas, and future maintenance. As a helpful guideline, try to keep your total monthly car costs under 25% of your income.

 **Down Payment:** If you can, try to put down 20%—it helps lower your loan and the interest you'll pay.

 **Financing:** Getting pre-approved for a loan at your bank or credit union can give you peace of mind and help you shop with confidence.

Do a Little Homework

 **Needs vs. Wants:** Figure out what you really need (like safety, reliability, enough doors) and what would just be nice to have (like a sunroof or heated seats).

 **New vs Used:** Used cars usually cost less but could need some repairs. New cars have warranties, but lose value quickly. Certified Pre-Owned (CPO) cars are a great middle ground.

 **Models:** Check out reliable starter cars like the Honda Civic, Toyota Corolla or Camry,

and Mazda3.

Vehicle Check: Don't Skip This Step (especially for used cars)

 **Vehicle History Report:** Request a CARFAX or AutoCheck report to check for accidents or other hidden issues.

 **Test Drive:** Take the car for a spin in both city and highway settings. Pay attention to how it feels, how it brakes, and listen for any odd noises.

 **Independent Inspection:** If you can, have a mechanic you trust give the car a quick checkup before you buy.

At the Dealership or Seller

 **Negotiate:** It's normal to negotiate, so don't be shy! Focus on the total "out-the-door" price, not just the monthly payment.

 **Insurance:** Compare insurance quotes before you buy—the price can change a lot from one car to another.

 **Paperwork:** Take your time to read everything before you sign. It's okay to ask questions if anything isn't clear!

Key Takeaway

While it's easy to get caught up in the excitement, take your time and make decisions that feel right for you. After all, buying a car is a big step—and we're here to help you make it a great one!



Secured Auto Loan Options



Secured Auto Loans

These loans use your car as collateral.

If you ever have trouble making payments, the lender can take back the car, but the good news is that these loans usually come with lower interest rates—helping you save money in the long run.



Traditional Auto Loans

This is a straightforward way to borrow money for your car and pay it back in equal monthly payments. It works for both new and used cars—even certified pre-owned ones.



Car Balloon Loan (AFG)

With this option, you enjoy smaller monthly payments, but there's a big payment at the end. When you reach that point, you can pay it off, trade it in, or sell it to cover the balance.



Business and Fleet Loans

Financing for vehicles used for businesses and fleets, including loans and lease financing, to take advantage of business tax provisions.



Secured Auto Loan Pros

- Usually, lower interest rates
- Lots of lenders to choose from
- Can be a good fit if your credit isn't perfect



Secured Auto Loan Cons

- Your car can be repossessed if you fall behind
- Sometimes, less flexible terms
- Some vehicles (like older cars) may not qualify





Secured Auto Loan Option

These loans aren't tied to your car as collateral. Instead, the lender looks at your credit and finances. Rates are usually higher, but you can get the loan before you pick a car—great for special vehicles or if you want extra flexibility.

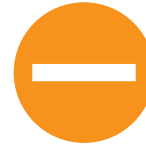
Also, you may not be subject to the same comprehensive/collision

insurance coverage requirements that come with a secured loan. If you default on the loan, your car won't be repossessed, but the debt could be sent to a debt collector, which could severely harm your credit score. Unsecured auto loans are also a good option if you're buying a classic or collector car that won't qualify for traditional financing.



Unsecured Auto Loan Pros

- No need to use your car as collateral
- Based on your credit, not the car
- Often, more flexible with how you use the money



Unsecured Auto Loan Cons

- Can be a bit harder to qualify for
- Usually comes with higher interest rates
- Often shorter repayment periods



Direct vs. Indirect Auto Loans: What's the Difference?

Direct Auto Loans

When you get a loan directly from a bank, credit union, or online lender, you're in the driver's seat. You get to see the terms yourself and compare different offers, all before you even set foot in a dealership.

The interest rates you're offered will depend on your credit score and payment history. Checking with lenders before visiting the dealership lets you compare and see who gives you the best deal!



Direct Auto Loan Pros

- Usually, lower interest rates
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Direct Auto Loan Cons

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Indirect Auto Loans

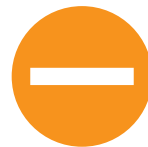
Many dealerships can set up financing for you right there—no need to visit a bank first. The dealer will send your info to different lenders (sometimes even the same ones you could

contact yourself). This can be super convenient, but remember, dealers sometimes add extra fees or increase your rate. Don't be afraid to ask for the best possible offer before signing anything!



Indirect Auto Loan Pros

- One application gives you access to several offers
- Dealers sometimes offer special deals or incentives
- Paperwork is handled for you—less hassle!



Indirect Auto Loan Cons

- Dealers can raise your interest rate
- You might not see the absolute best deal available
- The lender chosen may not always be your top choice





Prequalification Auto Loans

Want a quick idea of what you might qualify for? Prequalification is a simple first step, usually based only on the info you give and a soft credit check—so it won't impact your credit score. It's a great way to get a sense of your options before you get serious about buying.



Prequalification Pros

- Get a ballpark estimate from a loan officer
- No impact on your credit score from the soft credit check
- Shop around with several lenders using just one application



Prequalification Cons

- APR can change if you wait too long between getting prequalified and actually buying
- Might not be as useful for comparing final offers
- Getting prequalified isn't a promise you'll be approved

Preapproval Auto Loans

When you're getting serious about buying, preapproval is your next step. This process uses a hard credit check, so it's a bit more in-depth and can impact your credit score. You'll likely need to share more financial info, but in return, you get a firmer offer—so you know what you can spend and can negotiate with confidence.



Unsecured Auto Loan Pros

- The APR you see is likely what you'll get
- You can negotiate with a solid offer in hand
- Shows sellers you're ready and able to buy



Unsecured Auto Loan Cons

- You'll need to provide more detailed financial info
- A hard credit check can lower your credit score a bit
- Even with preapproval, final approval isn't a sure thing





Understanding Your Auto Insurance Coverage Options

Must-Have (Core) Insurance Coverage



Liability Coverage

This covers injuries and property damage you might cause to others in an accident. It's required in most states, and helps protect you financially if something unexpected happens.

Auto liability coverage is mandatory in most states. Drivers are legally required to purchase at least the minimum amount of liability coverage set by state law. Liability coverage has two components:

- Bodily injury liability may help pay for costs related to another person's injuries if you cause an accident.
- Property damage liability may help pay for damage you cause to another person's property while driving.



Collision Coverage

Helps pay for damage to your own car if you hit another car or run into something like a pole or fence. It's an extra peace of mind, especially for newer vehicles.

If you're involved in an accident with another vehicle or hit an object such as a fence, collision coverage may help pay to repair or replace your car (up to its actual cash value, minus your deductible). Collision coverage is typically optional. It may, however, be required by your vehicle's leaseholder or lender.



Understanding Insurance Coverages *continued*



Comprehensive Coverage

Protects your car from damage beyond a crash—such as theft, fire, hail, vandalism, or hitting an animal.

Comprehensive may help cover damage to your car from theft, fire, hail, or vandalism. If your car is damaged by a covered peril, comprehensive coverage may help pay to repair or replace your vehicle (up to the vehicle's actual cash value). This coverage has a deductible, which is the amount you'll pay out of pocket before your insurer reimburses you for a covered claim. Comprehensive coverage is typically optional coverage—but your lender may require it if you're leasing or paying off your vehicle.



Uninsured/Underinsured Motorist (UM/UIM)

Steps in to help with your expenses if the other driver doesn't have insurance, or not enough of it, after an accident.

If you're hit by a driver who doesn't have insurance, uninsured motorist coverage may help pay for your medical bills or, in some states, repairs to your vehicle. If you're hit by an underinsured driver, that means they have car insurance, but their liability limits aren't enough to cover your resulting medical bills. That's where underinsured motorist coverage may help, depending on the laws of your state. Uninsured and underinsured motorist coverage is required in some states and optional in other states.



How to Choose the Right Insurance for You

- **Lender Requirements:** If you're financing or leasing, your lender will usually require you to have Liability, Collision, and Comprehensive coverage.
- **State Requirements:** Liability insurance is required in most places. Some states also ask for PIP or UM/UIM coverage.
- **Personal Needs:** Consider your budget, the level of risk you're comfortable with, and whether you could afford to pay for repairs or a replacement yourself if you don't have certain coverages.



Understanding Insurance Coverages *continued*



Extra: Medical Payments (MedPay) and Personal Injury Protection (PIP)

These help with medical bills for you and your passengers after an accident, no matter who's at fault. PIP can even help with lost wages or childcare if you're hurt.

If you, your passengers, or family members who are driving the insured vehicle are injured in an accident, medical payments coverage may help pay for the costs of the injuries. Covered costs may include hospital visits, surgery, X-rays, and more. Medical payments coverage is required in some states and optional in others.

Personal injury protection (PIP) is available only in some states. Like medical payments coverage, PIP may help pay for your medical expenses after an accident. In addition, PIP may also help cover other expenses incurred because of your injuries — for example, childcare expenses or lost income. Personal injury protection is required in some states and optional in other states where it's available.

Optional Insurance Add-Ons

- **GAP Insurance:** If your car is totaled and you owe more than it's worth, gap insurance covers that difference—especially helpful with new cars or big loans.
- **Rental Reimbursement:** Covers the cost of a rental car while yours is in the shop after an accident or covered claim
- **Roadside Assistance:** Helps with towing, flat tires, dead batteries, or if you're ever locked out of your car—giving you extra peace of mind on the road.
- **New Car Replacement:** If your new car is totaled, this coverage gets you a brand new one—not just what your old one was worth after depreciation.
- **Towing and Labor Coverage:** Offers help for towing, battery jumps, lockouts, or even running out of gas, so you're never left stranded.
- **Ride-Sharing Coverage:** Gives extra protection if you drive for companies like Uber or Lyft, helping to cover the gaps between your personal insurance and what the ride-share company provides.
- **Classic Car Insurance:** Special coverage for your antique or collector car, making sure its full value is protected—since standard auto insurance often isn't enough for these unique vehicles.



Common Auto Loan Terms

(What They Mean)

Term Length: This is how long you have to pay off your loan, typically 2 to 7 years (24 to 84 months). Shorter terms mean higher monthly payments, but you'll pay less in interest overall.

Interest Rate: The percentage you pay on the amount you borrow. Lower rates mean you'll pay less over time.

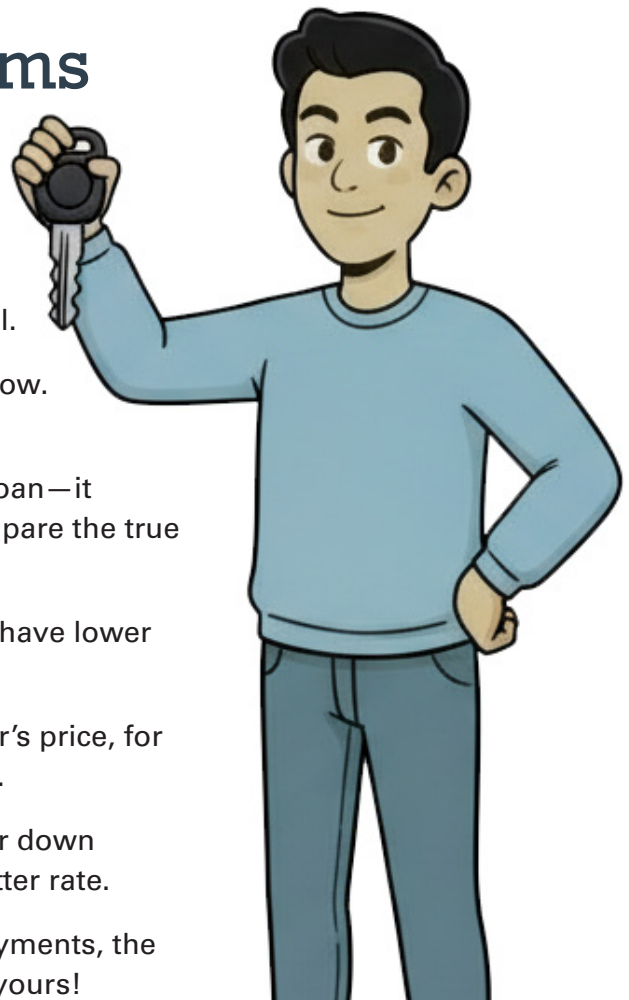
APR (Annual Percentage Rate): This is the yearly cost of your loan—it includes the interest rate and any lender fees. It helps you compare the true cost of different loans.

Monthly Payment: What you'll owe each month. Longer loans have lower payments, but you'll pay more in the end because of interest.

Total Interest: This is how much extra you pay, on top of the car's price, for borrowing money. Longer loans mean more total interest paid.

Down Payment: The money you put down at the start. A bigger down payment means you'll need to borrow less and might get a better rate.

Collateral: Your car is the collateral for the loan. If you miss payments, the lender can take back the car. Once you pay off the loan, it's all yours!



Key Things to Remember When Choosing a Loan



Monthly Payment vs. Total Cost

Longer loan terms mean smaller monthly payments, but you'll pay more in total interest. Shorter terms are more expensive each month, but you'll save money overall. Think about what fits best for your budget.



Loan Term and Credit

Your credit score can change the options you're offered. If your score is lower, you might choose a longer term for a lower monthly payment, but keep in mind this means paying more interest overall.



Average Terms

Most people today choose car loans that are about 5 to 6 years long (67 months is common).

